

## TAKING STOCK



### Santa Claus Came Early In 2007, May Not Return

By SPENCER JAKAB  
A Dow Jones Newswires Column

NEW YORK -- Ever notice how the Christmas lights go up earlier and earlier every year?

Well, 'tis finally the season for a jolly, bearded man to give investors some much-needed holiday cheer, but it seems he may have been thrown off by the decorations and come a bit too soon in 2007.

The Santa Claus rally has made the last two weeks of the year some of the most consistently profitable for owning stocks. Unfortunately, another bearded man -- considerably more svelter and in a conservative suit -- helped put an early end to the festivities. A seasonal trend that almost has been taken for granted foundered on what is seen as too little stimulus from Ben Bernanke's Federal Reserve and mounting concerns over the health of the consumer. The standard & Poor's 500 is down almost 5% since its recent Dec. 10 peak.

"Since forever, everyone expects December to be wonderful because of the Santa Claus rally," said Dawn Bennett, president of Bennett Financial Group. "Did we preempt it this year? I think yes."

The year-end phenomenon has been a real bonanza. Since 1940, the S&P 500 has been positive two thirds of the time the week before Christmas and more than three fourths of the time after Christmas, according to analysts at Bespoke Investment Group. This compares to about 56% odds for any random week being positive. The gains have been great too with the week before Christmas almost two and a half times better than a typical week and the week after nearly five times better. In other words, just holding stocks for the last week of the year has yielded an average annualized return of 41%.

The pattern could repeat this year, but there is no obvious catalyst aside from a late rebound in consumer holiday shopping to allay pessimism about consumer spending. The coordinated effort by central banks to boost liquidity may break the logjam in interbank funding but has been a dud as far as the stock market has seen it, even after the incredible \$500 billion operation by the European Central Bank. Ditto for the Bush administration's mortgage rescue package.

The next Fed meeting of the Federal Open Market Committee isn't until late January and there will be precious few opportunities for jawboning before the New Year. It was the buying of the rumor and selling of the fact of the 25 basis point rate cut last week that set up the current pattern. After the injection of cash into Citigroup Inc. (C), the fuel that drove the 7.7% rally in the S&P 500 ending on Dec. 10 was largely Fed speak.

"I was a little surprised when we had that rally ahead of the Fed meeting -- it was definitely early," said Neil Cataldi, market intelligence analyst at Susquehanna Financial Group. "I don't think there's all that much to be optimistic about given the macroeconomic pressures."

Cataldi, who specializes in tracking consumer spending, said optimism about late November retail sales helped propel the market but said that subsequent data have been poor, reinforcing the notion that the previously indefatigable American consumer is under pressure.

It's not just a matter of false hopes about consumption or suggestive Fed governors though -- the Santa Claus trend seems to have broken down before this year. The analysts at Bespoke note that returns have averaged zero during the current bull market for the week before

Christmas and have been negative the week after. Much like other seasonal quirks, the year-end rally may in part be a victim of its own fame.

There's always January, which has an enviable record of setting the tone for the remainder of the year, but next time Fed governors return to the airwaves, the response may be less robust. The market response both to hints of cuts and actual cuts has produced three aborted rallies since August, which is why Bennett advised her clients to view the last bounce as a selling opportunity.

"Their talk is cheap," she said. "Look what happened last time they did something -- it didn't last long, did it?"

(Spencer Jakab previously wrote the STREET SAVVY column, which has been rebranded as TAKING STOCK, a new global column which gives insightful analysis about equity-related topics around the world.)

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